

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**SB 218 - HB 677**

March 25, 2013

**SUMMARY OF BILL:** Creates a new direct beer shipper's license, issued by the Alcoholic Beverage Commission (ABC), allowing the shipping of beer and high alcohol beer directly to consumers of legal age. Lowers the tax imposed upon manufacturers of high alcohol content beer from the wine tax rate to the beer tax rate. Establishes a Class E felony, punishable by fine only, for shipping beer without the required licensing.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue –**

**\$3,600/Department of Revenue/FY13-14 and Subsequent Years**

**\$9,000/ABC Fund/FY13-14**

**\$5,300/ABC Fund/FY14-15 and Subsequent Years**

**Decrease State Revenue – Net Impact –**

**\$1,855,900/General Fund/FY13-14 and Subsequent Years**

**Increase Local Revenue - \$704,000/FY13-14 and Subsequent Years**

**Assumptions:**

- The ABC estimates 20 direct beer shipper's licenses will be issued in the first year and 5 per year thereafter.
- There is an initial application fee of \$300 for these entities and a recurring annual privilege tax of \$150; both payable to the ABC Fund.
- The increase in state revenue to the ABC Fund for FY13-14 is estimated to be \$9,000 [(\$300 application fee x 20 new shippers) + (\$150 privilege tax x 20 new shippers)].
- The increase in state revenue to the ABC Fund for FY14-15 and subsequent years is \$5,250 [(\$300 application fee x 5 new shippers) + (\$150 privilege tax x 25 total shippers)].
- Beer currently includes alcoholic beverages with alcohol content up to 5 percent.

- All beverages with alcohol content greater than seven percent are taxed at a rate of \$4.40 per gallon under current law.
- The excise tax rate for beer is \$4.29 per 31 gallon barrel.
- The excise tax rate for liquor is \$4.40 per gallon.
- The wholesale beer tax is 17 percent.
- The wholesale tax for liquor is \$0.15 per case.
- A case of spirits contains 2.377 gallons of spirits.
- Excise tax collections for the sale of liquor totaled \$37,764,412 for FY11-12 resulting in an estimated 8,582,821 ( $\$37,764,412 / \$4.40$ ) gallons sold.
- The total barrels sold are estimated to be 276,865 (8,582,821 gallons / 31 gallon barrels).
- The total cases sold are estimated to be 3,610,779 (8,582,821 gallons / 2.377 gallons per case).
- The wholesale price of high alcohol content beer is estimated to be \$10 per gallon.
- Based upon prior analysis, two states have liquor rates that show sales below the 15 to 17 percent alcohol content threshold, representing approximately five percent of total state liquor quantity.
- Estimate assumes five percent is the proportion of liquor sold in Tennessee that will be re-classified as beer under the provisions of this bill.
- It is assumed the state will cease to collect liquor excise taxes on approximately 429,141 gallons (8,582,821 gallons x 5%). This will result in a recurring decrease in liquor excise tax revenue of \$1,888,220 (429,141 gallons x \$4.40 excise tax).
- A wholesale tax rate of \$0.15 per case is applied to each case of spirits sold in Tennessee.
- It is assumed that the sale of 180,539 (3,610,779 cases sold x 5%) cases would be impacted by this bill.
- The recurring decrease in the wholesale tax collection on spirits is estimated to be \$27,081 (180,539 cases x \$0.15).
- The recurring increase in beer excise tax collections is estimated to be \$59,388 [(429,141 gallons / 31 gallons per barrel) x \$4.29 per barrel beer excise tax].
- The recurring increase in wholesale beer tax is estimated to be \$729,540 [(429,141 gallons x \$10) x 17% wholesale beer tax rate].
- The wholesale beer tax is subject to apportionment as follows: 0.5 percent to the Department of Revenue (DOR), 3.0 percent to wholesales for administration, and 96.5 percent to local governments.
- The recurring increase in state revenue to DOR from the wholesale beer tax is estimated to be \$3,648 (\$729,540 x 0.5%).
- The recurring increase in local government revenue from the wholesale beer tax is estimated to be \$704,006 (\$729,540 x 96.5%).
- The net recurring decrease in state tax collections to the General Fund is estimated to be \$1,855,913 [\$59,388 increased beer excise tax – (\$1,888,220 decreased spirits excise tax + \$27,081 decreased wholesale spirit tax collection)].
- Because the felony is punishable by fine only, there is no fiscal impact to the Department of Correction.

- Based on the Fiscal Review Committee's 2008 study of incarceration costs and fines, collection of fines for felony offenses is negligible. There will not be a significant increase in state or local revenue as a result of fines collected in conjunction with the new Class E felony created by the bill.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the last name "Geise".

Lucian D. Geise, Executive Director

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